

**BEFORE THE  
FEDERAL COMMUNICATIONS COMMISSION  
WASHINGTON, D.C. 20554**

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**In the Matter of** )  
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**Access Charge Reform** )  
 )  
**Price Cap Performance Review** )  
**For Local Exchange Carriers** )  
 )  
**Petition for Rulemaking of** )  
**Consumer Federal of America,** )  
**International Communications** )  
**Association and National Retail** )  
**Federation Relating to Access** )  
**Charge Reform** )

**CC Docket No. 96-262**

**CC Docket No. 94-1**

**RM No. 9210**

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

**REPLY COMMENTS OF SPRINT CORPORATION**

In its initial comments, Sprint presented an approach to access reform that is consistent with the marketplace realities of today and the reasonably foreseeable future. Since competition is not in fact exerting appreciable downward pressure on access charges, Sprint urged the Commission to take a direct approach to access reform by (1) adopting a forward-looking cost methodology; (2) requiring ILECs to file cost studies using that methodology; and (3) after analyzing the gap between current and cost-based access rates, beginning a measured transition (commencing with the July 1, 1999 annual access tariff filing) to cost-based access charges.

With respect to pricing flexibility, Sprint proposed measures that would enable ILECs to compete fairly with CLECs given the existing and foreseeable levels of competition, but opposed flexibility measures that are in excess of those warranted by actual marketplace realities. Sprint proposed to increase the scope and utility of

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geographic deaveraging based on density zones, and proposed eliminating the IX basket from price cap regulation after full implementation of intraLATA dialing parity.

Thus, Sprint's position is a middle ground between some IXC's who urge immediate prescription of cost-based access charges as well as increased price cap x-factors, and the ILEC's who argue that access reform should be left to the marketplace while giving ILEC's a lower productivity factor and unlimited pricing flexibility to boot. Very little in the initial comments of other parties warrants additional response at this time. Sprint will confine this reply to: (1) a response to the Big Lie that IXC's do not flow access charge reductions through to their customers; (2) a response to concerns of other parties about arguments relating to density-zone pricing of access; and (3) a brief comment on the USTA proposal for pricing flexibility.

#### **I. THE BIG LIE IS NOT AN EXCUSE FOR DELAYING ACCESS REFORM**

Ameritech (at 8-10) and USTA (at 18-19) both argue against lowering access charges to costs in part on the basis that consumers will not benefit from lower access charges because of the failure of IXC's to pass access rate reductions through to their customers. The notion that IXC's do not flow through access reductions to their customers has been the Big Lie of the RBOC industry for the past several years. These parties evidently believe that if a falsehood is repeated often enough and stridently enough, it will eventually gain acceptance.

However, the Big Lie has consistently been refuted by the analyses of the Commission's staff. For example, the December 1996 study by Jim Lande of the Common Carrier Bureau's Industry Analysis Division, "Telecommunication Industry Revenue: TRS Fund Worksheet Data," found (at 9) that the IXC's' "average billings per

minute declined significantly between 1992 and 1995” and that “[d]eclines in access cost per minute account for about half of the declines in toll rates over this period.” Stated differently, the staff found that long distance rates fell twice as much as the reduction in access charges. That trend has been borne out by more recent data for the years 1996 and 1997. The October 1998 study by Jim Lande and Katie Rangos of the Industry Analysis Division, “Telecommunications Industry Revenue: 1997,” shows (at Table 5) that the IXCs’ billed revenue per interstate domestic minute dropped by 2.1 cents from 1995 to 1997, while the IXCs’ access costs dropped by only 0.9 cents during that same period. Again, long distance rates fell twice as much as access charges.

These industry data are certainly consistent with Sprint’s own experience. Between 1995 and 1997, Sprint’s average revenue per minute for domestic minute-driven retail services<sup>1</sup> fell by slightly more than three cents, while access costs per minute fell by only two-thirds of one cent. Furthermore, these rate reductions benefited residential customers every bit as much as business customers. Indeed, the average rate reduction for residential customers during this 1995-97 period exceeded the rate reduction for business customers by more than one-half cent per minute.

The most recent version of the Big Lie, filed with the Commission by USTA just last month, has been adequately rebutted in the October 26 letter from Michael Pelcovits, MCI WorldCom’s chief economist, to Chairman Kennard. Dr. Pelcovits showed, using data from impartial Wall Street analysts, that IXC rates have not increased in 1998 as USTA claims, but have continued to fall.

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<sup>1</sup> Minute-driven services are those for which Sprint charges on the basis of usage rather than, e.g., on the basis of flat charges per unit of capacity. These are the services that utilize switched access.

Ameritech (at 9-10) makes much of the testimony of an MCI witness (Mr. Dennis Ricca) in a Michigan PSC proceeding. Mr. Ricca testified that “if you think that because we get a reduction, that we gladly flow that through to the consumers because we are good guys, that’s not the case. We hold onto every penny that we can.”<sup>2</sup> Mr. Ricca further testified (id.) that the market will nonetheless force flow-through and, as an example, stated that if AT&T reduced its rates, MCI would respond competitively. Ameritech (id.) characterizes this testimony as a “candid admission that the interexchange market is not working.”

It is a flat misconstruction of Mr. Ricca’s testimony to claim, as Ameritech does, that there is no price competition in the long distance market and that it is only AT&T that sets the prices. Mr. Ricca unambiguously asserted (id.) that “the market will force flow-through,”<sup>3</sup> and, as discussed above, that demonstrably has been the case. Of course MCI – along with Sprint and AT&T and every other long distance carrier – wants to and tries to “hold onto every penny” of access cost reductions that it can. But, as the data discussed above conclusively demonstrates, the market simply does not permit that to happen. Sprint, like every other IXC, is torn between its natural desire to “hold onto every penny that we can,” and the business imperative of retaining existing customers and attracting new ones as well. Sprint knows that unless it is willing to price its products out of the market, it simply cannot hold onto those pennies. If Sprint does, another competitor will come along, offer a better price to our customers and walk away with its business. That is how competition works.

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<sup>2</sup> See Ameritech Comments at 9 and citations therein.

<sup>3</sup> The excerpts from Mr. Ricca’s testimony appended as Attachment L to Ameritech’s comments also make it plain that Mr. Ricca was using AT&T for illustrative purposes.

The Commission has repeatedly found that the long distance market is competitive and that competition is intensifying. It is the central tenet of economics that a participant in a competitive market must take the prices dictated by the market, that its prices must reflect its costs and that it cannot fail to reduce its prices if its costs are reduced. That is why the establishment of competition is the Commission's overarching goal: because competition is far more effective than regulation in ensuring that prices reflect costs. That the RBOCs and their trade association continue to advance the Big Lie and to assert the corollary proposition that the local market is fully competitive but the long distance market is monopolistic, should be taken as an insult to the intelligence of the Commission.

**II. AN EXPANSION OF DENSITY-ZONE PRICING, PROPERLY ADMINISTERED, IS A SOUND FORM OF PRICING FLEXIBILITY FOR ILECS**

In its comments, Sprint proposed a broad expansion of density-zone pricing as a means of giving ILECs the tools necessary to fairly meet the threat of additional competition without providing unwarranted flexibility that could thwart competition and be used to discriminate in an anticompetitive fashion. Specifically, Sprint urged the Commission to allow ILECs to reinitialize their density-zone pricing for transport and special access to reflect the cost characteristics of each zone, so as to eliminate the stultifying effect of being forced initially to set the price cap index at the same level in each density zone. Second, Sprint proposed to allow ILECs to utilize more than three zones if they believe additional zones would enable them to more closely tailor their rates to underlying costs. Third, Sprint proposed extending density-zone pricing to local

switching and NTS cost recovery elements as well, since these cost elements may well vary with density to an even greater degree than is the case for transport.

Sprint wishes to address briefly the misgivings some other parties have expressed regarding density-zone deaveraging. The expansion of density-zone pricing that Sprint envisions would not simply allow ILECs to set rates in different zones willy nilly and without regard to costs, but is intended to allow LECs the flexibility to tailor their rates to underlying costs. Thus, Sprint agrees with CTSI (at 8-9) that density-zone pricing can properly be viewed as consistent with cost-based pricing rather than pricing flexibility for flexibility's sake.

Sprint disagrees with the parties that seem to suggest that deaveraged rates should consist only of reductions in higher density areas without allowing higher prices in lower density areas.<sup>4</sup> If the proper economic signals are to be given to potential entrants, and if ILECs are to have a fair opportunity to recover their costs, it is necessary to allow them to charge higher-than-existing prices in low-density areas where costs justify such rate increases. This is not cross-subsidization of high-density areas by noncompetitive areas; rather, it simply permits ILEC prices to reflect the cost characteristics of both low-density and high-density areas.

Sprint also takes issue with Time Warner's unsupported assertion (at 14) that switching costs do not vary geographically. Although switch costs are scalable to a degree, data from the Sprint ILECs, submitted in Sprint's January 29, 1997 Comments in CC Docket No. 96-262 (Exhibits 9 and 10), show a clear inverse relationship between the

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<sup>4</sup> See e.g., AT&T at 9; Competition Policy Institute at 10.

number of access lines served by a switch and the switch investment per line. There is no reason to believe the same pattern would not be true for other ILECs as well.

At the same time, Sprint agrees with ALTS (at 9) that ILECs should not be permitted further geographic deaveraging of their access rates unless they also offer comparable deaveraging of their prices for unbundled network elements. Although the Sprint ILECs have agreed to geographically deaveraged UNE rates, it is Sprint's experience as a CLEC that many other ILECs refuse to do so. It is blatantly anticompetitive for an ILEC to employ geographically deaveraged access charges, while requiring its competitors to purchase UNEs at a statewide averaged rate. Thus, the expansion of density-zone pricing proposed by Sprint should be conditioned on comparable deaveraging of UNE rates by the ILEC.


### **III. THE USTA PRICING REFORM PROPOSAL SHARES THE FATAL INFIRMITIES OF THE AMERITECH AND BELL ATLANTIC FLEXIBILITY PROPOSALS**

USTA (Attachment E) has presented a pricing flexibility proposal that is also endorsed by GTE (at 21) and Southwestern Bell (at 15). Sprint merely wishes to point out that this pricing flexibility proposal shares the same inherent infirmities of the Ameritech and Bell Atlantic proposals that were discussed in Sprint's initial comments. Like those of Ameritech and Bell Atlantic, it permits far more flexibility than actual marketplace conditions warrant now or are likely to warrant for some time to come. Second, the USTA proposal, like those of Ameritech and Bell Atlantic, would trigger the allowance of particular forms of pricing flexibility based not on measures of actual competition, but rather measures of theoretical potential competition. Until competitors are in fact winning customers away from ILECs and are in fact putting downward

pressure on ILEC access charges, there is no warrant for the unfettered deregulation of access charges that the USTA proposal would permit.

Respectfully submitted,

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A handwritten signature in dark ink, appearing to read "Richard Juhnke", is written over a horizontal line.

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November 9, 1998

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I hereby certify that a copy of the foregoing **REPLY COMMENTS OF SPRINT CORPORATION** was Hand Delivered or sent by United States first-class mail, postage prepaid, on this the 9th day of November, 1998 to the below-listed parties:

  
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